United Nations A/71/698

General Assembly

Distr.: General
19 December 2016

Original: English

Seventy-first session
Agenda item 134
Programme budget for the biennium 2016-2017

Managing after-service health insurance

Report of the Secretary-General

Summary

At its seventieth session, the General Assembly considered the report of the Secretary-General (A/70/590) on managing after-service health insurance liabilities. In that report, the Secretary-General provided an overview and analysis of health insurance covering officials and former officials, and their family members, across the United Nations system. The report was largely informed by the work of the inter-agency Working Group on After-Service Health Insurance.

The report included recommendations regarding undertaking collective negotiations with third-party administrators and health-care providers; undertaking underwriting reviews and negotiations with insurers; where appropriate, administratively practicable and financially beneficial, requiring that insured persons be enrolled for primary coverage under the national health insurance scheme of the country in which they ordinarily reside; broadening the mandate of the United Nations Joint Staff Pension Fund; standardizing the general after-service health insurance liability valuation methodology and establishing the key liability valuation factors for application across the United Nations system; and exploring opportunities for inter-agency cooperation in the investment of funds earmarked for the coverage of after-service health insurance liabilities.

Endorsing the recommendation of the Advisory Committee on Administrative and Budgetary Questions made in paragraph 32 (b) of its report A/70/7/Add.42, the General Assembly, in its resolution 70/248 B, requested that the Secretary-General maintain the Working Group in order to study further options for increasing efficiency and containing costs, and put forward specific proposals regarding those matters to the Assembly at its seventy-first session. The present report, which has been prepared by the Working Group as a follow-up to report A/70/590, is submitted by the Secretary-General to the Assembly pursuant to its request. This report, which

16-22472 (E) 110117

Please recycle

has been endorsed by the Finance and Budget Network of the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination, provides both a status update with regard to each of the recommendations made by the Advisory Committee to the Assembly at its seventieth session and further recommendations.

At its sixty-eighth to seventieth sessions, the General Assembly expressed the view that the rationale for setting aside budgetary resources earmarked for the purpose of funding the United Nations after-service health insurance obligation had not been sufficiently justified and that the pay-as-you-go approach should be continued "at the present time". The Secretary-General remains concerned regarding the level of unfunded after-service health insurance liability which will exert financial pressure on future budgets. This report therefore includes a detailed proposal of partial funding, from January 2020, aimed at ensuring prudential control of the escalation of the United Nations after-service health insurance liability and limiting the impact of the pay-as-you-go obligation on future budgets.

The General Assembly may wish to decide upon the endorsement of the further recommendations set out in this report and request that the Secretary-General maintain the Working Group and that a further status update be provided to the Assembly at its seventy-third session.

I. Introduction

1. At its seventieth session, the General Assembly considered the report of the Secretary-General on managing after-service health insurance liabilities (A/70/590), which provided an overview and analysis of health insurance covering officials and former officials, and their family members, across the United Nations system. While providing insight regarding the status of after-service health insurance liabilities across the system, that report did not present specific options for its funding.

2. The report of the Secretary-General was largely informed by the work of the inter-agency Working Group on After-Service Health Insurance. It is recalled that this Working Group was established by the Secretary-General under the auspices of the Finance and Budget Network of the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination, pursuant to General Assembly resolution 68/244 of 27 December 2013 in which the Assembly requested the Secretary-General to undertake a survey of current health-care plans for active and retired staff within the United Nations system, to explore all options to increase efficiency and contain costs and to report thereon at its seventieth session.

3. The Working Group comprises representatives of 18 United Nations system organizations: the Food and Agriculture Organization of the United Nations (FAO), the International Atomic Energy Agency (IAEA), the International Labour Organization (ILO), the International Telecommunication Union (ITU), the United Nations Development Programme (UNDP), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Population Fund (UNFPA), the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Secretariat, the United Nations Children's Fund (UNICEF), the United Nations Industrial Development Organization (UNIDO), the United Nations Joint Staff Pension Fund (UNJSPF), the United Nations Office at Geneva, the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), the World Food Programme (WFP), the World Health Organization (WHO), the World Intellectual Property Organization (WIPO) and the World Tourism Organization. Representatives of the Coordinating Committee for International Staff Unions and Associations (CCISUA), the Federation of Associations of Former International Civil Servants (FAFICS) and the Federation of International Civil Servants' Associations (FICSA) also participate in the work of the Working Group on behalf of the body of officials and former officials, and their family members, insured under the organizations' health insurance plans.

4. The report of the Secretary-General submitted to the General Assembly at its seventieth session incorporated eight recommendations of the Working Group on the following topics:

- Recommendation 1: Collective negotiations with third-party administrators
- Recommendation 2: Collective negotiations with health-care providers
- Recommendation 3: Underwriting reviews and negotiations with insurers
- Recommendation 4: National health insurance schemes

- Recommendation 5: Broadening the mandate of the United Nations Joint Staff Pension Fund
- Recommendation 6: Standardizing general valuation methodology and the establishment and application of key after-service health insurance liability valuation factors
- Recommendation 7: Adequate funding of the after-service health insurance liability
- Recommendation 8: Investment of reserves

5. The report of the Secretary-General (A/70/590) was reviewed by the Advisory Committee on Administrative and Budgetary Questions. The conclusions and recommendations contained in the report of the Advisory Committee (A/70/7/Add.42) were endorsed by the General Assembly in its resolution 70/248 B of 1 April 2016 on special subjects relating to the programme budget for the biennium 2016-2017. In its report, the Committee recommended that the Assembly request that the Secretary-General maintain the Working Group in order to study further options for increasing efficiency and containing costs, and put forward specific proposals regarding those matters to the Assembly at its seventy-first session. The present follow-up report has been prepared by the Working Group and has been endorsed by the Finance and Budget Network and the High-level Committee on Management. It is submitted to the Assembly by the Secretary-General pursuant to the recommendation of the Advisory Committee, as endorsed by the Assembly.

6. During the period following the seventieth session of the General Assembly, the Working Group prioritized recommendations 1, 3, 4, 6 and 7, as being those recommendations in relation to which its work stands to produce the greatest impact on after-service health insurance liabilities in the short term. The main body of the present follow-up report is therefore devoted to updates on the status of those five recommendations. The structure of this report is aligned to that of report A/70/590.

7. At its sixty-eighth and seventieth sessions, the General Assembly endorsed the recommendation of the Advisory Committee that the pay-as-you-go approach to the funding of the United Nations after-service health insurance obligation be continued "at the present time" (A/68/550, para. 17, and A/70/7/Add.42, para. 28). However, the Secretary-General remains concerned about the level of unfunded after-service health insurance liability which will exert financial pressure on future budgets. Therefore, the additional purpose of this follow-up report is to elaborate on a proposal to fund newly constituted after-service health insurance liability, while maintaining a pay-as-you-go approach in relation to the existing liability. This proposed partial funding is aimed at ensuring prudential control over the escalation of the United Nations after-service health insurance liability and limiting its impact on future budgets.

8. It must be underscored that all sections of this follow-up report, except that covering recommendation 7, have applications across the United Nations system. The content of the section on recommendation 7 on adequate funding of the after-service health insurance liability is specific to the United Nations Secretariat. At the time of its consideration of report A/70/590, the Advisory Committee requested

additional information regarding the binding nature of any General Assembly decisions with respect to the governing bodies of other organizations of the United Nations system. It was explained to the Committee that those Assembly decisions would not be binding on other system organizations and that corresponding points for decision would have to be proposed to those governing bodies for formal evaluation and endorsement.

Recommendation 1: Collective negotiations with third-party administrators

9. Consistent with recommendation 1 of report A/70/590, United Nations system organizations have laid the groundwork for collective negotiation with third-party administrators, with a view to optimizing terms and conditions, including pricing, in relation to administrative services and access to the health-care provider networks. Recommendation 1 arose in part from the Working Group's finding that organizations were insufficiently acquainted with the mechanics of third-party administration and that measures needed to be taken with regard to those administrators to enable organizations to monitor performance and pricing more efficiently and effectively. The Working Group also found that the terms of reference presented by United Nations system organizations to third-party administrators could be improved so that consistency would be achieved in relation to:

- Key performance indicators
- Pricing methodology, pricing segmentation and pricing assessment base per task
- Reporting structure and frequency, and disclosure requirements
- Controls and audit
- Tendering terms of reference and contractual terms and conditions

10. Initiatives have been taken by United Nations system organizations aimed at aligning their requirements in respect of third-party administrators to best practice. To further support collective negotiation, those organizations have agreed to establish and maintain a common database in which terms of reference and contractual terms and conditions in relation to third-party administration, as well as demographic data and claims-related data, will be captured and shared. It is intended that system-wide concerted action of this order will strengthen organizations' leverage across all insurance lines.

11. The two third-party administrators with the main presence in the health insurance sphere within the United Nations system are Cigna and Allianz. These are also the two main carriers insuring outsourced health insurance risks. As reported by the Secretary-General to the General Assembly, at year-end 2014, of the 369,173 persons covered under the 23 United Nations system organization plans surveyed, 305,857 were covered under third party administered plans. Of those persons covered, 266,916, or 87.3 per cent, were covered under plans administered by Cigna.

12. United Nations system organizations that rely, to different degrees, on third party administered services have expressed varying levels of satisfaction with the

standard of delivery of those services. Those organizations have met collectively with Cigna senior management with a view to conveying the common expectation that optimal terms and conditions of service would be offered and rigorously applied across the United Nations system and that the highest standard of delivery would be met. It is intended that a similar meeting will be scheduled with Allianz.

13. The meeting between the United Nations system organizations and Cigna preceded the September 2016 biennial meeting of a community of practice of health insurance officers of international organizations. At the meetings of the community of practice, established in 2000, a broad array of health insurance-related matters are discussed, with topics ranging from elements of plan design and risk management to administrative options and after-service health insurance liability funding. Fifty-five health insurance officers, representing 32 organizations both from within and external to the United Nations system, attended the most recent community of practice meeting. United Nations system organizations are amply represented in this community of practice, currently chaired by WHO. The mixed reviews given by the United Nations system organizations of pricings and practices of third-party administrators were largely echoed by health insurance officers across the community of practice.

14. **Recommendation A. It is recommended that the Working Group established by the Secretary-General under the auspices of the Finance and Budget Network of the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination be maintained so as to ensure continuity in promoting terms and conditions of service aligned to best practice, cost containment and control in the area of third-party administration of health insurance plans.**

Recommendation 2: Collective negotiations with health-care providers

15. It is recalled that, consistent with the conclusions of the Advisory Committee, the General Assembly at its seventieth session endorsed recommendation 2 of the Working Group, as contained in report A/70/590 that, building on their success in conducting collective negotiations with health-care providers in the Geneva area, the Geneva-based self-administered health insurance plans (ILO, WHO and the United Nations Staff Mutual Insurance Society) continue to identify areas in which collective negotiations with health-care providers could result in savings and operational improvements. It was also recommended that common processes be developed to support the collective negotiations and that the establishment of a common database be considered as a means of sharing information in relation to health-care provider practices, terms and conditions of agreements, and quality assessments.

16. The Geneva-based plans have continued to expand their preferred provider network in Geneva through collective negotiation. In 2015, the resulting discounts on charges associated with in-patient treatment averaged 25.0-27.0 per cent. Given the location in which the costs were incurred, the savings are substantial: for the three plans, the 2015 savings totalled an estimated $18.0 million. Savings of this order have the effect of reducing the organizations' pay-as-you-go obligations and after-service health insurance liabilities.

17. Pursuant to recommendation 2, the administrators of the three Geneva-based plans have now turned their attention to collectively developing their access to health-care provider networks in Asia and Africa, while at the same time negotiating best pricing for quality health care and minimizing pricing volatility. The Working Group will explore opportunities for cooperation of the self-administered Geneva-based plans with organizations in all locations whose health insurance plans are third party-administered, to ensure that access to health-care provider networks is optimized across the United Nations system and cost efficiencies are realized.

18. **Recommendation B. It is recommended that the Working Group pursue opportunities for the cooperation of organizations based in all locations in developing their health insurance plans' access to health-care provider networks in all regions, to ensure that best pricing for quality health care is achieved and pricing volatility is minimized.**

Recommendation 3: Underwriting reviews and negotiations with insurers

19. In report A/70/590, the Secretary-General recommended that, to provide a robust basis for challenging the terms and conditions of insurers, organizations with externally insured plans should perform periodic underwriting reviews, the results of which should be shared within the United Nations system for benchmarking purposes. In relation to this recommendation, the Advisory Committee concurred that opportunities exist for consolidation for the purpose of achieving economies and efficiencies while maintaining access to quality health care (A/70/7/Add.42, para. 14).

20. United Nations system organizations whose health insurance risks are outsourced currently place those risks with one of two insurance carriers: Allianz or Cigna. These carriers also provide third-party administration services. However, the Working Group chose in the first instance to consider pure underwriting results separately from third party administrator pricings and practices. While these can easily be reassociated to provide a complete cost and performance representation of each carrier, the Working Group is not of the view that risk and third-party administration must perforce be placed with a single entity, as is currently the case. The Working Group is of the view that the market for placement of health insurance risks should not be limited to carriers able also to provide third party administrator services.

21. Although its primary focus in relation to recommendation 3 is on health insurance risk placement, the Working Group has considered it important to establish the United Nations system's profile, in terms of both insurance premiums and underwriting results, as a global client of each of the two key insurance carriers. As a starting point, both carriers were requested to provide baseline aggregate historical underwriting data in relation to each of the following personal insurance lines:

- Staff health insurance (including after-service health insurance)
- Short-term staff insurance
- Non-staff insurance
- Staff compensation (workers' compensation) insurance

- Voluntary group life insurance (term life and disability)
- Intern insurance
- Governing body/board member insurance
- Meeting attendee insurance
- Visitor/guest insurance
- United Nations Volunteer insurance
- Goodwill Ambassador/Messenger of Peace insurance
- Junior Professional Officer insurance

22. For each insurance line, the two insurance carriers were requested to indicate the United Nations system organizations whose technical results were included in the aggregates. They were made aware that, at a later date, they could be requested to provide organization-specific technical data for cross-referencing purposes. As a matter of transparency, they were requested to disclose any information of a nature to impact their own technical results, for example, on any profit-sharing or override arrangements associated with a reinsurance cession, or any global rebates from health-care providers.

23. It must be noted that, where the health insurance risk is outsourced to one of the two key carriers, reporting requirements and periodicity in relation to underwriting results vary significantly from organization to organization within the United Nations system. The Working Group is actively engaged in promoting consistency in this regard, with the structure of the request to the two carriers for aggregate historical underwriting data serving as a reporting model. The Working Group is also recommending that, upon renewal, organizations ensure that confidentiality clauses that currently preclude sharing of information within the United Nations system are withdrawn from contracts with insurance carriers and third-party administrators.

24. Successfully negotiating with the key carriers hinges on understanding how the United Nations system's risk profile, as determined by the underwriter at insurance policy inception, has translated into actual financial performance for the carrier over time. For each insurance line or risk subset, the financial performance is expressed as a combined ratio. The combined ratio is obtained by relating total expenditure to gross premium, including reinsurance premiums and technical reserves associated with aggravated risk, such as the risk of exposure to Ebola virus disease during the deployment of the United Nations Mission for Ebola Emergency Response in West Africa. Expenditure includes claims settled and pending; claim reserves (e.g., realized annuities); claims incurred but not reported; brokerage commissions; internal and external underwriting administration costs; and any other costs or charges directly associated by the underwriter with the risk.

25. A combined ratio in excess of 100.0 per cent is indicative of an underwriting loss, which can be reduced by reinsurance recoveries, with the corresponding possible negative effect on reinsurance premiums. Conversely, a combined ratio under 100.0 per cent is indicative of an underwriting profit which can in certain

cases be increased by reinsurance recoveries, but reduced where a profit-sharing arrangement benefiting the United Nations system organization is in place.

26. Underwriting reviews are useful insofar as they inform decisions in relation to the terms and conditions of insurance or the risk placement. The Working Group considers that gaining insight into the United Nations system's risk performance in aggregate is a first step towards strengthening the organizations' combined leverage with insurance carriers. It is intended that this initial insight shall guide the Working Group's more specific analysis aimed at determining how cost efficiency can be improved in the short term, including through profit sharing or risk pooling, where warranted by technical results.

27. Over the period 2006-2015, the all-line aggregate gross premium for the two carriers was $1,235.5 million, of which 91.1 per cent, or $1,125.8 million, was written in the staff health insurance line, including after-service health insurance. Over the same 10-year period, the aggregate combined ratio was 93.7 per cent and the technical result net of profit share was $39.1 million, or 3.2 per cent of gross premium. For the staff health insurance line, the combined ratio was 94.4 per cent and the technical result net of profit share was $35.9 million, or 3.2 per cent of gross premium.

28. In 2010, Cigna acquired Vanbreda International NV, an insurance broker and health insurance third-party administrator with significant presence within the community of international and non-governmental organizations. As a result, health insurance business that had been placed with Allianz by Vanbreda as a broker was in part transferred to Cigna as from 2012. In order to safeguard its international health insurance portfolio, Allianz developed its own third-party administration capability and entered into competition with Vanbreda, renamed Cigna IGO Health Benefits in 2015.

29. The Working Group has noted the intensity of that competition as reflected in the technical data received from the two carriers. In the five-year period preceding the 2011 insurance year, the staff health insurance line produced a combined ratio of 90.2 per cent and a net profit ratio of 7.2 per cent. By contrast, over the period 2011-2015, the combined ratio for staff health insurance was 97.3 per cent and the net profit ratio 0.4 per cent. The Working Group has also noted that significant increases in gross premiums, appearing to correspond to new client acquisition, coincide with equally significant increases in gross loss ratios, obtained by relating claims expenditure before reinsurance recoveries to gross premium. This has rendered aggregate technical results erratic in several insurance years. Over the period 2011-2015, the consolidated net technical result for the staff health insurance line ranged from a $6.2 million gain to a $2.7 million loss. The Working Group notes the need for caution regarding the exposure of United Nations system organizations to onerous premium increases aimed at resorbing losses attributable to underpricing at the time of policy inception.

30. It is recalled that health insurance across the United Nations system is provided to officials and former officials following mutual insurance principles, whereby serving officials' contributions in aggregate exceed the benefits they receive while in service and the excess contributions are allocated to balancing out the aggregate deficit in respect of former officials. Application of this principle of

intergenerational solidarity translates into high continued participation in the health insurance plans after retirement.

31. In addition, although they are high in frequency, health insurance claims are rarely of a catastrophic nature. This, combined with the high participation of former officials in the United Nations system health insurance plans, makes technical results associated with those plans generally predictable, unlike the technical results associated with more volatile insurance lines: property and casualty, liability or workers' compensation. Whereas pricing in relation to these more volatile insurance lines is value-based, health insurance risks within the United Nations system can be underwritten on a cost-plus basis. It follows that there is a strong argument in favour of self-insuring the health risk, provided that sufficient critical scale can be achieved and the appropriate due diligence and controls are in place to monitor the standard of claims settlement, in particular where claims settlement is outsourced to a third-party administrator. The argument is further strengthened by the conclusions to be drawn from the technical data received from Cigna and Allianz and by the moderate risk of a carrier's withdrawal from the international staff health insurance line should net technical results fall chronically short of objective.

32. Critical scale can be attained through the pooling of organizations' health insurance risks into captive insurance arrangements, such as those established at the United Nations Secretariat, both in New York and at the United Nations Office at Geneva, along geographical or organizational lines. However, as health-care expenditure is a function of demographics which can differ markedly from organization to organization, certain organizations could face higher costs as a result of risk pooling. Equalization mechanisms therefore need to be developed in relation to plan solvency.

33. **Recommendation C. It is recommended that the Working Group urge organizations to adjust confidentiality clauses in insurance policies and contracts with third-party administrators that currently preclude the sharing of information within the United Nations system, and implement regular system-wide underwriting reviews aimed at enabling United Nations system organizations to leverage scale and technical experience in negotiating terms and conditions of insurance with health insurance carriers. It is further recommended that the Working Group promote risk pooling wherever practicable, including within captive insurance arrangements, where appropriate.**

Recommendation 4: National health insurance schemes

34. It is recalled that, in its resolution 70/248 B, on special subjects relating to the programme budget for the biennium 2016-2017, the General Assembly endorsed the conclusion of the Advisory Committee that the necessary information should be obtained regarding the appropriateness, practicability and financial effects of incorporating into the rules and regulations of United Nations system organizations' health insurance plans the requirement for insured persons to be enrolled for primary coverage under the national health insurance scheme of the country in which they ordinarily reside. Under this scenario, contributions to the national scheme would be borne by the organization health insurance plan, with that plan also providing supplementary coverage to ensure that overall coverage levels

remain equivalent to those offered under current terms and conditions of insurance. It is assumed that health-care charges to the organization plan would be reduced, with a corresponding reduction in the organization's after-service health insurance liability and without detriment to comprehensiveness or affordability of coverage for the insured persons, including when treatment is obtained outside their country of residence.

35. It is also recalled that the administrative implications, cost and effects on after-service health insurance liabilities of incorporating into plan rules and regulations the requirement for insured persons to be enrolled in a national health insurance scheme can vary, often significantly, from country to country, as well as from plan to plan. While acknowledging that savings could potentially be achieved in locations where sizeable populations of retired United Nations system officials and former officials reside, the Advisory Committee trusted that the Working Group would give due consideration to the characteristics of the national health insurance schemes.

36. Pursuant to its recommendation, the Working Group engaged Member States regarding the conditions of eligibility for primary coverage under their national health insurance schemes of persons insured under the auspices of United Nations system organizations, as well as the terms and conditions of insurance. A two-phased approach has been implemented to gathering the information that will allow the Working Group to focus on the national health insurance schemes most likely to be beneficially associated with the organization plans, with, as a measure, the interests of both the organizations and the insured persons.

37. An initial survey, comprising five questions, was developed and distributed to all permanent representatives and permanent observers to the United Nations. This was aimed at gaining insight into Member States' willingness to allow officials and former officials access to their national health insurance scheme and at obtaining baseline information regarding scope of coverage versus cost. The initial survey was designed to enable the Working Group to determine:

(a) Whether coverage under the national health insurance scheme is available or could be made available to officials and former officials, and their family members, residing in the Member State, assuming that they have never paid into the national health insurance scheme but would pay into the scheme from the date of their enrolment;

(b) What the monthly premium per person would be for coverage under the national health insurance scheme (it must be noted that allowance was made in the survey for premiums expressed as a percentage of income), assuming semi-private accommodation at the time of in-patient medical treatment and free choice of health-care provider (physician, medical institution, etc.);

(c) What the base rate of reimbursement of medical costs would be under the national health insurance scheme, assuming semi-private accommodation at the time of in-patient medical treatment and free choice of health-care provider (e.g., physician, medical institution, etc.);

(d) Where a person covered under the national health insurance scheme lives in a location bordering on another Member State, whether the national health

insurance scheme would provide for coverage of medical treatment in a publicly funded hospital in that bordering Member State;

(e) Whether the same pricing schedule as that applied to a patient covered under the national health insurance scheme would be applied to a patient covered under the national health insurance scheme of another Member State, were medical treatment to be obtained in a publicly funded hospital.

38. The survey could be completed either as a paper document or on an online survey site. Respondents were assured that the data, as well as the analysis of the responses, would be incorporated in the present follow-up report in a summary. No information specific to a Member State would be incorporated in the follow-up report, nor would deliberations in the legislative bodies in relation to the follow-up report centre on information specific to a Member State. Full confidentiality of the information provided would be ensured.

39. The Working Group will send a second survey to the permanent representatives of those Member States whose national health insurance scheme coverages are or could be made available to officials and/or former officials of United Nations system organizations, as well as to their dependent family members, living in the Member State. This second survey will be aimed at gathering the more detailed information regarding the terms and conditions of the national health insurance schemes that will enable the Working Group to establish a full country-by-country cost and benefit analysis and to assess the effect on after-service health insurance liabilities.

40. The Working Group has emphasized the complexity of the cost and benefit analysis. Whereas in certain Member States, the contribution to the national health insurance scheme is expressed as a flat rate per person, in others, the contribution is means-tested and expressed as a percentage of income. In still other Member States, health-care systems are primarily funded from general taxation and are open to all persons ordinarily resident in the country; free choice of health-care provider (physician, medical institution, etc.) may be limited, however. In a number of Member States, national health insurance schemes and health-care systems are undergoing changes which could affect the longer-term validity of the Working Group's analysis in certain cases.

41. The work of the Working Group in relation to recommendation 4 of report A/70/590 is ongoing. At the time of completion of the preparation of this follow-up report, some 5.0 per cent of permanent missions had responded to the survey. The Working Group is encouraged by the completeness of the information received, but the number of responses is currently insufficient to permit conclusions to be drawn. The permanent missions that have experienced delays in responding to the survey will be urged to respond.

Recommendation 5: Broadening the mandate of the United Nations Joint Staff Pension Fund

42. It is recalled that the Working Group, as noted in report A/70/590, having explored the option of broadening the mandate of the United Nations Joint Staff Pension Fund, concluded that this was inadvisable. It is also recalled that the Advisory Committee, in its conclusions in relation to that report, while

acknowledging the views expressed by the United Nations Joint Staff Pension Board and the Working Group, was not in a position to recommend the endorsement of recommendation 5 and remained of the view that the funding and administration of after-service health insurance benefits, being an issue of system-wide concern, would be best resolved through a system-wide approach. The Committee recommended that the Working Group continue to examine options for such a system-wide approach, without excluding a potential role for the Pension Fund.

43. In relation to its endorsement of recommendations 1 to 3 contained in report A/70/590, the Advisory Committee recognized the diversity of health insurance plans across the United Nations system in terms of both the markets in which they operate and the staff categories that they serve. The Committee also recognized the different administration models under which the various plans operate. Nevertheless, the Committee considered that opportunities existed for consolidation for the purpose of achieving economies and efficiencies while maintaining access to quality health care.

44. In considering the option of consolidating all United Nations system health insurance plans into a common health insurance arrangement operated under the auspices of the United Nations Joint Staff Pension Fund, the Working Group continued to find no evidence that financial, operational or administrative efficiencies could be achieved. This view was shared by both Pension Fund management and the Fund Board. Both management and the Board also expressed concern about any loss of focus on the part of the Fund, or any compounding of its operational complexity, which could affect delivery in its core pension business.

45. However, the Working Group recognizes the need to enable all United Nations system organizations to realize the financial advantages and administrative efficiencies associated with critical scale. Opportunities exist for smaller health insurance arrangements to merge or to be incorporated into larger plans along geographical or organizational lines, as has been achieved at the United Nations Secretariat, both in New York and in Geneva. This implies that no material discrepancies exist in coverage structure or benefits, and that agreement can be reached between organizations in relation to eligibility, service levels, participation in the funding of administration, representation in plan governance and the development of solvency equalization mechanisms.

46. **Recommendation D. It is recommended that the consideration of expanding the mandate of the United Nations Joint Staff Pension Fund cease and that the Working Group concentrate its efforts on promoting consistency in health insurance plan design and plan consolidation along geographical and organizational lines for the purpose of attaining critical scale.**

Recommendation 6: Standardizing general valuation methodology and the establishment and application of key after-service health insurance liability valuation factors

47. The yearly valuation of the after-service health insurance liability offers a snapshot of how officials' and former officials' entitlements to after-service health insurance coverage translate into a United Nations system organization's projected share of the cost of that coverage over the long term. Because the after-service

health insurance liability valuation is a point-in-time estimate of future costs based on the staff and retiree profile, as well as on actuarial assumptions as at the date of valuation, year-to-year variances in the valuation can be significant, as the liability is highly sensitive to the values determined for the key actuarial factors. It must also be noted that the methodology applied in determining those values can vary from organization to organization.

48. The after-service health insurance liability valuations of United Nations system organizations are carried out by independent actuaries in accordance with the requirements of the International Public Sector Accounting Standards. Because of diverse demographic profiles and contract policies, certain actuarial factors cannot be universally applied to the after-service health insurance liability valuations across the United Nations system. Nor is an organization whose health insurance has been outsourced to a private sector carrier always able to apply all the factors that enter into the after-service health insurance liability valuation of an organization whose health risk is either self-insured or placed within a captive insurance arrangement within the United Nations system.

49. Nevertheless, there is scope for organizations to agree on a harmonized methodology for determining the values of a number of key after-service health insurance liability valuation factors. This would allow a more homogeneous assessment of the total United Nations system liability, as well as improved organization-to-organization comparison of liabilities across the system.

50. It is recalled that, in the conclusions of its report in relation to report A/70/590, the Advisory Committee conveyed its expectation that, to the extent possible, measures would be taken by December 2017 to standardize the general valuation methodology for after-service health insurance liabilities across all United Nations system organizations (A/70/7/Add.42, para. 26). Within the framework of the Finance and Budget Network of the High-level Committee on Management, meeting this expectation was entrusted to the Task Force on Accounting Standards.

51. The valuation method commonly used across the United Nations system is the projected unit credit cost method with service prorate. With the replacement of the provisions of International Public Sector Accounting Standard 25 by those of Standard 39, the option allowing an organization to defer recognition of changes in its net defined benefit liability (known as the corridor approach) has been removed. The Task Force agreed that those organizations currently using the corridor method to account for actuarial gains and losses will have adopted the reserve method by 2018. Harmonization of the valuation method and the move to the reserve method of accounting will improve comparability significantly.

52. The Task Force reached broad agreement that a number of key after-service health insurance valuation factors could be harmonized. The financial assumption that most impacts the after-service health insurance liability valuation is the discount rate. An even modest discount rate fluctuation can have a significant effect on those valuations. The discount rate is derived from current interest yields and reflects the "time value of money". It is a determining factor in the after-service health insurance liability valuation, as after-service health insurance benefits are paid over an extended period. The Task Force agreed in principle that a 30-year yield curve for high-quality corporate bonds would be identified each year for each

of the three currencies in which health insurance benefits are most commonly paid: the United States dollar; the euro; and the Swiss franc. These yield curves would be utilized by United Nations system organizations in their after-service health insurance liability valuations, taking into consideration the estimated duration of the future cash flows. The organizations would require that their independent actuaries document, in their valuation reports, how cash flows and yield curves have been applied to arrive at a weighted average discount rate based on health insurance benefit disbursements per currency.

53. The Task Force agreed that all organizations will use the special year-end United Nations Operational Rate of Exchange for currency conversion purposes. It was also agreed that, unless inappropriate, a number of actuarial assumptions applied in United Nations Joint Staff Pension Fund projections should also be those used in after-service health insurance liability valuations in United Nations system organizations. These assumptions are reviewed by the Pension Fund Committee of Actuaries and include mortality rates, disability rates, retirement rates and pension adjustment rates. Pension Fund global assumptions on salary increases should be used, except by those organizations whose liabilities are concentrated in a single location. Organizations with a significant geographical bias will apply location-specific assumptions.

54. It was further agreed that a harmonized approach to general inflation could be taken by establishing rates for the major United Nations locations, namely, New York, Geneva, Rome and Vienna. Other locations could use their own indicative benchmarks to establish general inflation rates. The general inflation rate does not incorporate the medical trend rate which is a percentage variance representing projected price inflation, technology advances, utilization patterns and cost shifting from or to social programmes. Further analysis is required in relation to the medical trend rates to determine whether harmonized geographical assumptions can be established or whether these assumptions should be specific to each United Nations system health insurance plan. Analysis may show that a combination of both geographical and plan-specific assumptions is appropriate.

55. The potential for harmonizing the approach with other valuation factors, such as spousal coverage, plan participation and staff turnover, requires further study. In the run-up to its December 2017 deadline, in addition to formalizing its agreements in relation to the after-service health insurance valuation methodology and the key valuation factors, the Task Force will turn its attention to the methodology used in assessing annual health insurance plan administration costs and will work towards a common view on which assets should be considered eligible for use as after-service health insurance liability offsets.

56. **Recommendation E. It is recommended that the Task Force remain actively engaged in harmonizing the principles guiding liability valuation.**

Recommendation 7: Adequate funding of the after-service health insurance liability

57. Pursuant to the provisions of the International Public Sector Accounting Standards, the liabilities associated with employee benefits must be recognized in the organizations' financial statements. However, as the provisions under the

Accounting Standards do not stipulate how those liabilities should be funded, it is left to the organizations to determine the most advisable approach to ensuring that adequate resources are available to meet their recognized obligations as they fall due. It is recalled that the Advisory Committee was of the view — a view endorsed by the General Assembly — that the rationale for setting aside budgetary resources earmarked for this purpose had not been sufficiently justified by the Secretary-General.

58. The Secretary-General remains concerned about the level of unfunded after-service health insurance liability which will exert financial pressure on future budgets. The employer's share of biennial disbursements in respect of after-service health insurance can reasonably be expected to increase, from $218.1 million in 2016-2017 to $352.8 million in 2024-2025 and to $719.4 million in 2040-2041 for the entities falling directly within the scope of the decisions of the General Assembly in relation to after-service health insurance. Within the broader United Nations environment, after-service health insurance disbursements are expected to increase from $350.3 million in 2016-2017 to $610.0 million in 2024-2025 and to $1,399.3 million in 2040-2041. Partial funding of the after-service health insurance liability is therefore proposed, with the aim of ensuring prudential control over its escalation and limiting its impact on future budgets.

59. As stated in the introduction to this report, the above proposal is specific to the United Nations system organizations governed by the General Assembly. The executive heads of organizations not governed by the Assembly would need to submit separate funding proposals for consideration by their own governing bodies, or they may have already done so. It must be noted that a number of governing bodies are waiting for their own decisions to be informed by the outcome of the deliberations of the Assembly. Organizations whose governing bodies have already endorsed funding of after-service health insurance liabilities have implemented the funding following various methodologies. While recognizing that the funding of after-service health insurance liabilities is a system-wide issue, the Working Group is of the view that a single system-wide approach to addressing that issue may not be necessary or achievable.

60. It is proposed to fully fund newly constituted after-service health insurance liability while maintaining the pay-as-you-go approach for the existing liability. In this context, "newly constituted liability" means liability constituted in relation to staff recruited from 1 January 2020 only. Liability in respect of staff members already recruited but not yet entitled to after-service health insurance would be included in the assessment of the existing liability, constituted in relation to staff recruited before 1 January 2020. Newly constituted liability would be funded on an annual service cost-plus-interest cost basis, whereas the existing liability would remain unfunded and, after an initial period of continued growth, begin to decline through attrition.

61. In support of this proposal, the independent actuary for the United Nations, Ernst & Young, was requested to prepare projections of the long-term expected cash flows associated with the development of the liabilities. Projecting on a cash basis rather than on an accrual basis allows for a more accurate tracking of the actual incurrence of expenditure and recording of income. The after-service health insurance liability valuations at 31 December 2015 were the starting point in the

development of the projections and, for the sake of accuracy, the present follow-up report shows the budgetary impacts over an 87-year period (see figure I below) and over a period of some 50 years (see figures II and III below) projected from 1 January 2016, with a 2-year deferment of the funding implementation. This has no material effect on the representation of how the after-service health insurance obligations will evolve. A fully detailed projection reflecting a 1 January 2020 implementation date will be prepared subject to the guidance of the General Assembly regarding the present proposal for partial funding of the after-service health insurance liability.

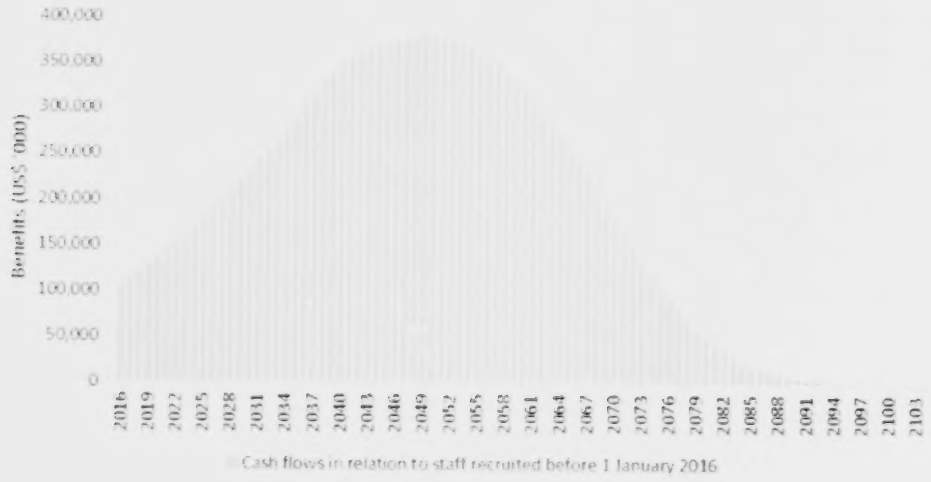
62. The perimeter of the projections represented in the figures below comprises the entities falling directly within the scope of the decisions of the General Assembly in relation to after-service health insurance, but exclude peacekeeping: the International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994, the International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991, the International Trade Centre, the Joint Financing Arrangement, the International Residual Mechanism for Criminal Tribunals, the United Nations, the United Nations Compensation Commission, the secretariat of the United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa, the United Nations Environment Programme (UNEP), the secretariat of the United Nations Framework Convention on Climate Change, the United Nations Human Settlements Programme (UN-Habitat), the United Nations Institute for Training and Research (UNITAR), the United Nations Joint Staff Pension Fund and the United Nations Office on Drugs and Crime. Peacekeeping has been excluded from the perimeter because of the fluid nature of its workforce and the resulting potential for under- or overstating the funding requirement. For the same reason, the assessment base of the liability estimated for projection purposes is the gross salary mass (excluding post adjustment) rather than total staff cost. While projections have been prepared for UNDP, UNFPA, the United Nations Office for Project Services, the United Nations University and UN-Women, they are not included in the perimeter of those presented below. Separate projections have also been prepared for peacekeeping.

63. The discount rates used by the independent actuary in preparing the long-term expected cash flow projections are those used for the most recent after-service health insurance liability valuations. However, whereas the International Public Sector Accounting Standards imposes constraints regarding the nature of investments that may be taken into account in calculating the discount rate factored into the after-service health insurance liability valuation, decisions on financing can be based on more realistic investment opportunities. The projections prepared by the independent actuary are based on an assumed rate of return on investment (ROI) transactions of 3.50 per cent. The ROI is less conservative than the discount rates taken into account in the after-service health insurance liability valuations. It is expressed as a real rate of return, i.e., as an ROI net of inflation, and is consistent with the long-term real rate of return objective of the Pension Fund.

64. Figure I shows the development over some 87 years of the liability constituted in relation to staff recruited before 1 January 2016, until its expiration through attrition in 2103. In Figure I, as in figures II and III below, the liability is represented by cash flows corresponding to the employer's share of after-service health insurance benefit payments. The total of the 31 December 2015 after-service health insurance liabilities calculated by the independent actuary for the entities included within the perimeter of the projections represented in the figures below stood at $4.3 billion.

Figure I

Development to expiration of after-service health insurance liability related to staff recruited before 1 January 2016



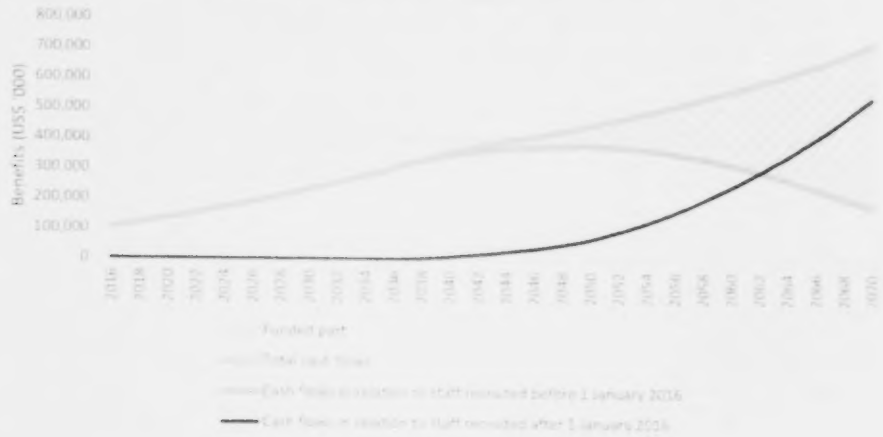
65. Figure II illustrates the development of the after-service health insurance liability over a period of some 50 years in the absence of funding. The lower curve shows the development of the after-service health insurance liability constituted in relation to staff recruited from 1 January 2016 without the proposed funding of the service cost and interest cost. The central curve represents the development of the liability constituted in relation to staff recruited before 1 January 2016. The upper curve shows the addition of the two segments of liability, i.e., the development of the total after-service health insurance liability without funding. As shown, in the absence of funding, the employer's share of yearly disbursements in respect of after-service health insurance is expected to increase by some $100.0 million every 10 years.

66. The filled area in figure II bounded by the central and upper curves represents the part of the United Nations liability that would be funded by accumulating a financial reserve sufficient, over time, to fully cover the United Nations pay-as-you-go after-service health insurance obligation in respect of staff recruited from 1 January 2018. The positive impact on future budgets is achieved by transferring

the after-service health insurance liability to the reserve in the same manner as pension-related liability is transferred to the United Nations Joint Staff Pension Fund.

Figure II

Development of total after-service health insurance liability without funding (open group basis to year-end 2070)



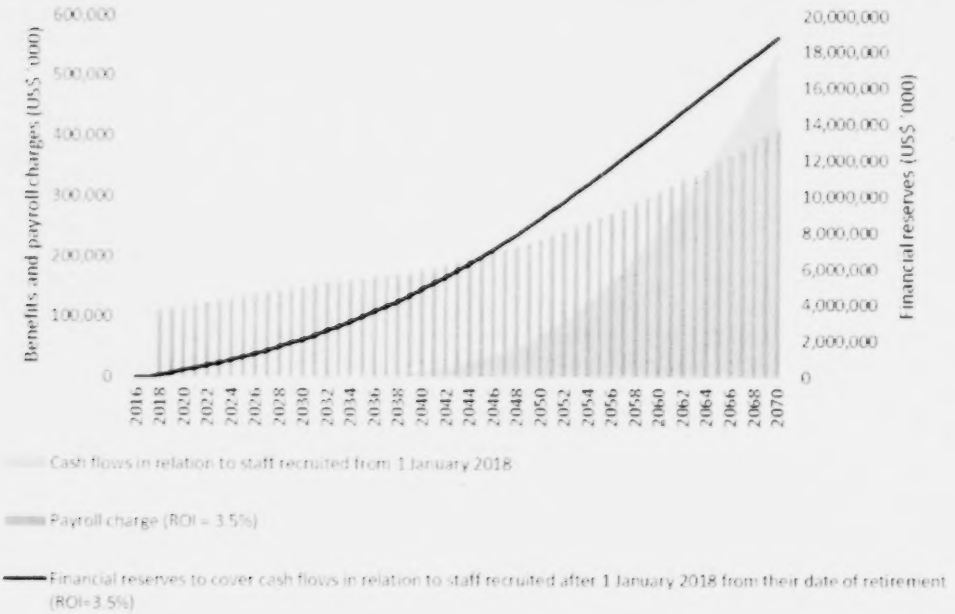
67. As shown in figure II, with the passage of time, the employer's share of after-service health insurance benefits paid to staff recruited from 1 January 2018 exceeds that of after-service health insurance benefits paid to staff recruited before that date. Ultimately, with the expiration of the liability constituted in relation to staff recruited before 1 January 2018 and the maturing of the proposed funding, the employer's share of the after-service health insurance benefits — and thus the entities' after-service health insurance liabilities — will be fully funded by the accumulated reserves.

68. The independent actuary was also requested to determine the payroll charge that would be necessary to achieve full funding of the after-service health insurance liability constituted as from 1 January 2020 (service cost) as well as its projected growth (interest cost). "Full funding" means the accumulation of a financial reserve sufficient to initially reduce and ultimately fully cover the United Nations projected pay-as-you-go after-service health insurance obligation to newly retired officials as from the date of their retirement. Although the payroll charge corresponds to the funding of newly constituted after-service health insurance liability, it is expressed as a level percentage of the total gross salary mass (excluding post adjustment) regardless of the date of recruitment.

69. Figure III illustrates the effect of the proposed funding of the service cost and interest cost, based on an open group projection, developed based on the assumption that the number of newly recruited officials eligible for after-service health insurance will match the number of retiring officials eligible for after-service health insurance. The employer's share of after-service health insurance benefit payments

to staff recruited from 1 January 2018 is represented along with the level payroll charge — 6.17 per cent of salary mass based on the 3.5 per cent return on investment — corresponding to the proposed funding of the service cost and interest cost. The curved line represents the reserve accumulation corresponding to the proposed funding. The reserve accumulation represented, which reaches $18.8 billion in 2070, is net of the employer's share of after-service health insurance benefit payments to staff recruited from 1 January 2018 and is reported as a liability offset in the organizations' after-service health insurance liability valuations. The reserve would accumulate in the same manner with a 1 January 2020 implementation date for the proposed funding.

Figure III
Funding of after-service health insurance liability related to staff recruited from 1 January 2018



70. Shown in the table below are the biennial budgetary impacts of: (a) United Nations fulfilment of its continued net pay-as-you-go obligation in respect of after-service health insurance; and (b) the 6.17 per cent payroll charge applied for the funding of the liability in respect of staff recruited from 1 January 2020. Following its 2050-2051 peak, the liability in respect of staff recruited before 1 January 2020 begins to decline, while the funded part of the overall liability continues to increase. As a result, as from the biennium 2070-2071, the budgetary impact associated with after-service health insurance begins to be reduced and, in due course, is limited to the payroll charge only. In the absence of funding, the 2068-2069 budgetary impact

would be $1.4 billion. Successive budgetary impacts would continue to escalate, as no part of the pay-as-you-go obligation would be covered by accumulated reserves.

Biennial budgetary impacts of the pay-as-you-go obligation and the payroll charge

(Thousands of United States dollars)

Biennium	*Pay-as-you-go obligation*	*Payroll charge*	*Total*
2020-2021	281 754	234 966	**516 720**
2048-2049	757 793	438 920	**1 196 713**
2068-2069	408 248	789 727	**1 197 975**

71. Although the implementation of the payroll charge would have an immediate positive effect on the after-service health insurance liability by curtailing its growth, the United Nations would be required to continue the pay-as-you-go funding of after-service health insurance corresponding to the liability constituted until 31 December 2019. A reduction in the liability calculated on a closed group basis would be reported in the organizations' after-service health insurance valuations only once the unfunded liability constituted at 31 December 2019 began to decline in 2052, primarily as a result of attrition, following a peak in benefit payments estimated at $380.0 million.

72. **Recommendation F. It is recommended that the General Assembly approve the principle of funding of the after-service health insurance liability in respect of officials recruited from 1 January 2020 so as to fully cover the United Nations pay-as-you-go obligation to those officials, as from the date of their retirement. It is also recommended that the proposed funding be confirmed by the Assembly at its seventy-second session based on a fully detailed projection reflecting the 1 January 2020 implementation date.**

Recommendation 8: Investment of reserves

73. It is recalled that, as indicated in the report of the Secretary-General (A/70/590), the Working Group, in considering avenues for the investment of funds earmarked for the coverage of after-service health insurance liabilities, recommended that United Nations system organizations explore opportunities through the Working Group on Common Treasury Services, established by the Finance and Budget Network of the High-level Committee on Management, for cooperation in leveraging existing arrangements with external asset managers, with a view to maximizing returns and minimizing management fees.

74. The Working Group cautioned that the consolidation of after-service health insurance reserves by multiple organizations for investment purposes would present particular challenges owing to both different liability funding needs and levels and ownership and governance issues. Based on the conclusion that a joint health insurance arrangement would be inadvisable, co-mingled investments would have equally limited applicability. Nevertheless, the sharing of investment strategies and joint bidding for investment managers of individual portfolios is an area that the Working Group was committed to exploring further.

75. As the General Assembly had taken no decision regarding the funding of after-service health insurance liability at the time of the Working Group's recommendation, the Advisory Committee was not in a position to recommend its endorsement. However, while not ruling out the possibility of establishing an inter-agency facility for the investment of accumulated reserves, the Committee saw merit in the Working Group's recommendation.

76. A Request for Proposals was issued by UNDP on behalf of the United Nations Capital Development Fund (UNCDF), UNDP, UNFPA, UNICEF and UN-Women, all New York-based organizations, which resulted in the selection of two external investment management firms charged with the investment of after-service health insurance-related reserves totalling over $1.1 billion. These assets are invested in accordance with instructions received from a common investment management committee, comprising representatives of the five organizations. The assets are pooled for investment purposes, but are ring-fenced in separate organization-specific accounts lodged in a common bank. This cooperative approach is intended to result in lower management fees and better investment returns than were previously experienced, and in a better alignment of the investment of the after-service health insurance-related assets to the underlying liabilities.

77. In support of a number of United Nations system organizations that have set aside reserves earmarked for the coverage of their after-service health insurance liabilities, the Working Group on Common Treasury Services is pursuing opportunities for collaboration along the lines of the initiative of UNCDF, UNDP, UNFPA, UNICEF and UN-Women. This will serve as a sound foundation pending decisions by the General Assembly and other United Nations system governing bodies related to the funding of after-service health insurance liabilities.

78. **Recommendation G. It is recommended that the Working Group on Common Treasury Services, established by the Finance and Budget Network of the High-level Committee on Management, continue to promote inter-agency collaboration with respect to the investment of funds earmarked for the coverage of after-service health insurance liabilities.**

79. **The Secretary-General suggests that the General Assembly may wish to:**

(a) **Welcome and take note of the present report;**

(b) **Endorse recommendations A to G contained in the report;**

(c) **Request the Secretary-General to maintain the Working Group and further update the General Assembly regarding these matters at its seventy-third session, in particular regarding the conclusions of the Working Group in relation to the enrolment of insured persons for primary coverage under the national health insurance schemes of Member States.**